

AR05



Second Quarter Report

TO THE SHAREHOLDERS

Six months

ended June 30, 1979



Lithographed in Canada
on Abitibi Provincial's
Kelmscott Smooth,
basis 160M.

ABITIBI PAPER COMPANY LTD.

Toronto-Dominion Centre
Toronto, Canada M5K 1B3

Abitibi Paper Company Ltd. and subsidiary companies
CONSOLIDATED NET EARNINGS (Unaudited)
(thousands of dollars except per share calculations)

	Quarter Ended June 30		Six Months Ended June 30	
	1979	1978*	1979	1978*
Net sales	\$374,851	330,408	728,861	619,763
Cost of sales	284,708	254,174	564,040	481,434
Selling, administrative and research expenses	23,378	20,390	45,493	39,550
Depreciation and depletion	12,654	12,328	25,371	24,508
	54,111	43,516	93,957	74,271
Interest and expense on long-term debt ..	(5,635)	(5,692)	(11,373)	(11,485)
Other interest	(208)	(211)	(337)	(390)
Foreign exchange gain (loss)	(61)	(2,383)	(2,685)	1,855
Other income	2,646	1,057	4,875	2,150
	50,853	36,287	84,437	66,401
Income taxes	20,070	15,964	33,023	27,911
	30,783	20,323	51,414	38,490
Mining income (loss)	3,775	302	5,790	(118)
Interest in earnings of non-mining companies accounted for on the equity basis	523	742	873	1,129
	35,081	21,367	58,077	39,501
Minority shareholders' interest	1,812	4,263	2,812	7,631
Earnings before extraordinary items	33,269	17,104	55,265	31,870
Extraordinary items	—	(1,612)	550	(507)
Net earnings	\$ 33,269	15,492	55,815	31,363
Per common share				
Earnings before extraordinary items	\$ 1.66	.86	2.72	1.60
Net earnings	1.66	.78	2.75	1.58

*1978 figures have been restated to make them comparable with the 1979 practice of showing separately foreign exchange gains or losses which result from changes in exchange rates between the dates when sales, costs or expenses in foreign currencies are transacted and the dates when foreign currencies are converted to Canadian funds or foreign currency working capital items are translated to their Canadian funds equivalent. This change does not affect net earnings.

CHANGES IN CONSOLIDATED FINANCIAL POSITION (Unaudited)

(thousands of dollars)

	Quarter Ended June 30		Six Months Ended June 30	
	1979	1978	1979	1978
Financial Resources Provided By:				
Earnings before extraordinary items	\$ 33,269	17,104	55,265	31,870
Charges (credits) to earnings not affecting working capital:				
Depreciation and depletion	12,654	12,328	25,371	24,508
Deferred income taxes	2,742	3,333	5,910	5,127
Interest in earnings of companies accounted for on the equity basis —				
Mattabi Mines Limited	(1,620)	(276)	(3,017)	(651)
Other	(523)	(742)	(873)	(1,129)
Minority shareholders' interest	1,812	4,263	2,812	7,631
Other — net	(169)	49	(710)	(9)
Funds from operations	48,165	36,059	84,758	67,347
Extraordinary items	—	(475)	1,591	630
Deferred income (Stephenville)	7,432	—	10,904	—
Dividends from Mattabi Mines Limited ..	2,400	—	3,600	2,400
Disposals of fixed assets	729	298	1,179	573
Issue of common shares of a subsidiary company	—	715	—	715
	58,726	36,597	102,032	71,665
Financial Resources Used For:				
Additions to fixed assets	27,574	12,163	43,226	20,801
Dividends:				
Shareholders of the Company	8,858	3,847	17,620	7,694
Minority shareholders of subsidiary companies	75	714	2,034	1,342
Reduction of long-term debt net of unrealized exchange loss	3,216	3,543	6,777	5,830
Retirement of preferred shares	2,010	2,000	2,068	2,067
Acquisition of shares of The Price Company Limited	429	—	1,973	—
Increase in receivables not currently due	146	59	353	307
Increase (decrease) in investments	107	(475)	83	(516)
Other items — net	57	(25)	30	(456)
	42,472	21,826	74,164	37,069
Increase in Working Capital	\$ 16,254	14,771	27,868	34,596
Working Capital at End of Period			\$328,541	294,432

ABITIBI PAPER COMPANY LTD.

To the Shareholders:

Sales and earnings for both the quarter and the six months ended June 30, 1979 were new records for Abitibi.

Earnings before extraordinary items for the six months were \$55.3 million or \$2.72 per common share, consisting of \$1.06 in the first quarter and \$1.66 in the second, as compared with \$31.9 million or \$1.60 per common share earned in the first half of 1978, a 73% improvement. After an extraordinary gain of \$550,000 reflecting the sale of one small U.S. plant less estimated costs associated with the planned shutdown of another, net earnings for the first half of 1979 were \$55.8 million or \$2.75 per common share, as against \$31.4 million or \$1.58 per share in 1978.

Net sales for the first six months of 1979 amounted to \$728.9 million, an increase of \$109.1 million or 18% over the same period last year.

The weakness of the Canadian dollar continues to be a major contributing factor to earnings. As a result of the Canadian dollar trading below par with the U.S. dollar, 1979 earnings were augmented by \$26.6 million, as compared with \$15.6 million in the first half of 1978. The weaker Canadian dollar vs the U.S. dollar contributed 57% of earnings in the first and 41% in the second quarters of this year.

The Company's newsprint, groundwood papers and fine papers facilities operated at capacity and most other units experienced

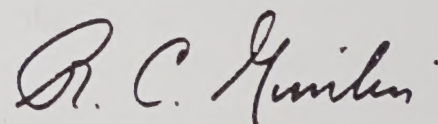
very satisfactory market and operating environments. All these factors contributed to our strong quarterly results. On the negative side was the lower contribution from our building products division, primarily the result of a weakening U.S. construction market; the penalty incurred as the result of a flood at our Sturgeon Falls plant; a strike that began at our Peribonca, Quebec sawmill on May 24th and one that began at our Alpena, Michigan hardboard plant on May 28th.

The Company's mining operations continued to show better results than in 1978 due chiefly to the improvement in base metal prices. This situation is expected to continue for the balance of the year.

In general, the outlook for the second half of the year is somewhat clouded because of the uncertain economic climate in the U.S. which is our principal market. Nevertheless, at present there is a continuing strong demand and backlog for all our paper products.

A quarterly dividend of 35¢ per common share has been declared payable on August 1, 1979 to shareholders of record on June 29, 1979. Common share dividends declared in the first half of 1979 have aggregated 70¢ per share, as compared with 30¢ in the comparable period of 1978.

On behalf of the Board,



President and Chief Executive Officer

July 16, 1979